



TRENDS IN THE MANAGEMENT CONSULTING OF HRM SERVICES IN THE LIGHT OF EMPIRICAL RESEARCHES

József Poór¹, Ildikó Csapó², Ildikó Éva Kovács³, Zsuzsa Karoliny⁴, Khaloud Alsulaiti⁵, Anton Florijan Barasic⁶, Eric J. Sanders⁷

¹ Faculty of Economics of J. Selye University, Slovakia and Faculty of Economics and Social Sciences, Szent Istvan University, Hungary

² Doctoral School of Management and Business Administration, Szent Istvan University, Hungary

³ Faculty of Economics and Social Sciences, Szent Istvan University, Hungary

⁴ Faculty of Economics of University Pécs, Hungary

⁵ Doctoral School of Management and Business Administration, Szent Istvan University, Hungary

⁶ Chronos Co., Croatia

⁷ Loyola University Chicago and Marquette University, USA

Abstract

This study deals with the tendency of companies to use external providers in managing Human Resources, and with the way in which this has changed in the years following 2008 and the arrival of the economic crisis. Although outsourcing is often seen primarily as a cost-cutting exercise, the study reveals that, when HRM is concerned, external providers are widely used for higher value-added HR activities, such as the development, provision and operation of specialized HR IT systems. Further, larger companies and those with developed HR departments were more likely to make use of such services, and companies in peripheral economies less likely. At the same time, we have found that, in the aftermath of the global economic crisis, the use of external providers declined. This would suggest that even if external HR providers add value, they remain in the eyes of many companies, a luxury which can be readily jettisoned in adversity. This paper aims to show both the common and distinctive features of HR consultancy which can be identified in the various regions of the world in these early years of the 21st century. However, among the regions examined, special attention is paid to, the former socialist countries of Central and Eastern Europe (CEE).

KEY WORDS: Management consultancy, HR, outsourcing, external provider, Cranet

Introduction

Management Consultancy is more than one hundred years old (Kubr 1996, Niedereichholz, Ch.; Niedereichholz, J. 2012). Management consultancy for the purpose of this submission is defined as: Management consultancy is the rendering of independent advice and assistance about management issues. This typically includes identifying and investigating problems and/or opportunities, recommending appropriate action and helping to implement those recommendations (Biech, 2007; Sturdy et al., 2013; FEACO, 2016). Theoretical and practical development of management consultancy can be traced into five major views (Kipping, M.; Clark, T. 2012). The first wave was that relating to 'scientific management' and generated by Taylor, Bedaux and Maynard. (Fink, 2004; Niedereichholz, 2008). This movement continues today in methods such as BPR (Business Process Reengineering) Six Sigma, Kaizen (Toyota System), TQM (Total Quality Management), etc. The second wave related to Human Relations. The best known advocate of this approach is George Elton Mayo, who noted the link between efficiency and mental health and made proposals to decrease workplace stress (Block,

1981). The third wave was that of the growth of *strategy consulting*. This field and its advocates (McKinsey, Boston Consulting Group, Bain Corporation, A.T Kerney) have long played the most significant role in consulting. This movement is still dominant, but its prime was in the past decades. The growth of *consulting in accountancy firms* was the next wave. In the 1960s the rise of Information Technology encouraged standardization in accounting services and the general reduction of client fees in the 1970s and 1980s. This, in turn, led to diversification among accountancy firms in terms of "added value".

On the other hand, technological evolution also led to *IT consulting and outsourcing*, and this forms the fifth wave. Market research shows that, today, the size of market for the general Management Consulting sector has been overtaken by IT consulting services. Today's accelerating changes in the global environment pose huge challenges to companies in the field. The most significant changes occur in digital economy and have had an enormous impact on the development of the consultancy industry. In previous years, clients employed consultants

and relied on their advice to provide effective recommendation and feasible implementation ideas based on their broad theoretical knowledge and experience from other clients. This time is over. Today, clients are expecting effective value creation from consultants in a global environment. (Hodges, 2017).

We are also completing the aforementioned five trends with a sixth trend: the People and Knowledge Management movement. A new recognition of recent years shows that capital, technology and financial resources are becoming less of a competitive advantage. The real distinctive factor among companies is the human resource, human capital and knowledge. Review of the literature reveals a number of authors who have suggested that a critical element of success for business organizations is the effective management of people and knowledge (Ulrich et al., 2009; Torrington et al., 2014; Armstrong and Taylor, 2017). The classical representatives of human resource consulting on an international level are AON-Hewitt, Hay-Kern Ferry, Mercer, Towers-Whyte, etc. Beside these companies, other consultancy companies also recognized business opportunities in the trend indicated.

Moreover, consultants must meet new requirements. Consultancy must be outcome-oriented rather than problem-oriented. Using a problem-oriented approach,

the consultant identifies problems and offers solutions. However, it is more efficient when the consultant helps the client to identify problems himself and to achieve outcomes. Additionally, an erroneous problem definition can be eliminated by this approach.

Another requirement is that consulting must be focused on the co-creation of new knowledge rather than on expert knowledge. Expert or process knowledge is not sufficient, since, to understand an organization appropriate questions need to be asked. The resources which already exist can be mapped – a potentially useful building-block in the consulting process.

Further, in our uncertain world, knowledge is dynamic rather than static. The regular consulting models are based on the paradigm that it is possible to influence the environment, but this view has now been discredited and there is no single solution which is good for all situations. Consultants are advocates of knowledge, but this is not simply one-way traffic. (Sturdy, 2011)

The relationships between consultants and clients also become more personal rather than merely professional, and all of these changes in the client's requirements lead to the Inquiry Model of Consulting (Table 1), which meets the challenges of a more complex and uncertain world. (Brooks, K.; Edwards, K. 2014).

Table 1. Roles and models of management consultancy

Consultant Emphasis	The Advice (expert) Model	The Process Model	Inquiry Model
What is the consultant task?	Solve problem	Solve problem	Achieve the Client's desired outcome
What should the relationship between Consultants and Clients?	Consultant transfers or delivers knowledge to Client	Consultant and Client work together on human relationships and organization dynamics	Consultant and Client are partners on technical and social/human dimension of change
Who is the expert?	Consultant is the expert brings knowledge and best practice	Consultant is a „helper” or process expert	Client and Consultant each bring different types of expertise to bear on achieving the outcome
How should the Client's capacity be increased?	Transfer knowledge in form of product or service	Help clients learn to more effectively work together	Client and Consultant co-create knowledge needed to achieve the outcome
How much attention should the Consultant give to the uniqueness of each Client organization or community?	Low (knowledge transferable across contexts)	High	High

(Source: Brooks, A.K.; Edwards, K. 2014.)

According to this, specification will also become more important in consultancy – as asserted by Harvard University researchers. (Clarck et al, 2015)

Additionally, we meet changes in the area of capitalist orientation and the transformation of social management, together with the internationalization and globalization of enterprises and organizations. All of these influence our culturally complex environment, and the overall effect on the industry has been strong. These factors have had a huge impact on the consulting industry, on advisory

processes and on advisors alike – although this is not exclusive to HR consulting (Ennfellner et al., 2014).

This study deals with changes in the use and uneven impact of outsourcing of the HR function, whether in basic administrative roles or in the use of management consultants to add value to higher-end or more strategic areas of HRM. At the beginning of the 1980s, as Drucker (2003) noted, HR strategy gained importance and consequently HRM became more valuable in Management Consultancy also. Although there has been a proliferation in both the use of consultants and

outsourcing since the early 1990s, distribution remains uneven, and there is considerable debate as to their real contribution to organizational effectiveness or the sustainability of such practices (Belcourt 2006; Lievens, F.; de Corte, W. 2008; Crawshaw, 2017). Indeed, whilst outsourcing is often driven by a desire to cut costs, there is some debate as to how effective this has proved in a range of different contexts (Harrison and Kelly, 1993). Again, it can be argued that consulting represents a relative “luxury” which is likely to be trimmed in a period of austerity. The study explores the impact of the last 15 years on the relative inclination of companies to off-load parts of the HR function to external providers. The case of post-state-socialist Central and Eastern Europe is a particularly salient one, given that many organizations have faced ongoing and acute crisis of competitiveness since the early 1990s and, of course, many have met oblivion (Kornai, 2008). HRM played an administrative and political role in CEE countries (Kazlakauiste et al, 2013), whilst the traditional Taylor-line (Gross, A. C.; Poór, J. 2008) was represented by management consultancy in Eastern Europe. In general, before the political changes at the end of the 1980’s, in most Eastern-European countries consulting service was rendered by sector research institutes controlled by the state, or by departments of different ministries. In numerous countries management training and consulting centers were established with the support of the International Labor Organization (ILO) (Kubr, 1996), or that of UNIDO (United Nations Industrial Development Organization). As a summary, we can say that in the previous regime the characteristics of modern management consulting were very scarce in these countries.

An increasing number of theorists and experts claim that privatization and ownership change do not automatically improve the effectiveness of the government, the companies, and the social welfare systems (Piispanen-Krabe, 1990; Claessens, S.; Djankov, S. 2002). On the contrary, it may well increase opportunities for corruption and bribery. When a company is privatized or managed by Western-type business rules, there is no guarantee that the values and mindsets of the people will change along with it. The adaptation of all the financial, legal, technical and sales frameworks in a privatized local company or in companies with foreign participation represents only the first stage in the creation of a Western-type enterprise. Once all this is in place, one must start to consider how to get the people and the organization to perform in a competitive way. Even the best financial infrastructure in the world will not turn companies around from command economy to market economy if the people and the organization do not perform appropriately.

On the one hand, this might suggest that organizations operating in the region have most to gain from the infusion of external expertise. On the other hand, if locked into survival mode, organizations may lack the resources to secure such expertise, and concentrate their attention on the basic managerial and administrative functions necessary for survival. Hence, in looking at changes in the use of external providers of HRM services, we accord particular attention to this region. As Lievens and de Corte (2008) note, much of the existing literature

focuses on the rationale behind the initial decision to engage in outsourcing, rather than whether and how such relations persist. Generally speaking, consulting is “a knowledge-based service; it can be bought and sold, but it cannot be dropped on your foot, and it cannot be displayed in a shop-window. The service of a consultant is often intangible, hard to store and/or transport, and it is difficult to demonstrate its advantages to potential clients” (Miles, 1999). Sveiby (1992) describes a knowledge-intensive organization as one in which the majority of employees are highly educated, where the product is not standardized but involves a high degree of problem-solving skills and information manipulation. In respect of such services, we need to highlight certain important elements in the following areas:

- human capital features and knowledge intensity,
- a high level of intangible activities and services,
- difficulties in standardization,
- intensive interaction between consultants and clients.

Besides traditional management consulting (e.g. strategy, organisation, HR, change management, IT advice and project management) new service lines (e.g. development and integration (excluding software development) and outsourcing as well coaching and humble consulting (Brooks, K.; Edwards, K. 2014 and Schein, 2016) also belong to this profession (FEACO, 2016 and Hodges, 2017).

The Outsourcing of HRM Functions

Belcourt (2006) notes that companies engage in outsourcing of HR functions to save money, to free up core HR staff to deal with strategic issues, to access new technology and capabilities or simply to improve overall functionality. HR outsourcing includes a broad range of internal HR functions and the respective, externally procured personnel services such as temporary agency work, payroll accounting, interim management, outplacement services, HR consulting, placement services (Alewell, et al.; 2009). As Poór and Gross (2010) note, outsourcing falls outside a strict definition of consultancy, but in practice, the use of external providers to fulfil aspects of the HR function may, in some instances, constitute outsourcing. In contrast, outsourcing may be defined as “the practice of providing assistance towards organizational improvements” or the provision of services that add value beyond the basic maintenance activities of day-to-day personnel administration (Sturdy, 2011). Outsourcing assumes a consulting dimension when it adds value to the HR function and/or new specialized expertise (Sheehan, 2009), rather than when simply replicating it outside of the walls of the organization. Moreover, other work would suggest that a major driver of HR outsourcing remains aggressive cost cutting, with possible effects on overall effectiveness (Beregszaszi, J.; Polay, D.H. 2012). This might indicate that, given relatively marginal gains or high risks, it may be the kind of activity readily jettisoned in difficult times. Lievens and de Corte (2008) argue that outsourcing relationships are more likely to persist when they are multi-faceted, and when HR managers perceive the outside providers as sharing similar values. Although

Cooke, Shen and McBride (2005) found widespread use of external providers for at least one HR function, take-up rates varied greatly between contexts.

HR Consultancy

Although management consultancy has a long history, as Grint and Case (1990) note, the 1980s saw the rise of a new wave of “bellicose” managerial consultancy; the latter was characterized by a focus on targets and measurement, coupled with aggressive rhetoric centering on short-term value release. Such consultancy sought to enhance all the functions of management, but, as employees are the main non-owner stakeholders with sunk capital in the company (Goergen. et al. 2012), it could be argued that the increased role of consultants in managing a company’s people is vested with particular importance; indeed, Briscoe et al. (2009) note that consultants have become a ubiquitous feature of organizational life across the developed world. Looking at the case of Australia, Sheehan (2009) found that larger companies were more likely to make use of HR consultants in order to secure new specialized skills. Although this particular service field was rarely seen in the ex-socialist countries prior to 1990, the political transition in these countries opened the door to external HR consultants, who are now similarly active across the region (FEACO, 2014).

External Providers and Setting

The External HR consultancy encompasses many dimensions ranging from those providing special functions - for example, recruitment by head-hunters, through logistics services to strategic inputs - and is an activity embracing not only traditional HR consultancy companies, but also head-hunters, training companies, employment agencies, HR-IT service companies and - in recent years - an increasing number of outsourcing providers (Poór et al., 2016). The ubiquity of external providers for HRM services does not mean that it lacks political, ideological and value dimensions (Kipping, 2002; Grint, K.; Case, P. 1998). As the literature on comparative capitalism alerts us, specific national institutional contexts are more conducive to particular types of practice than others (Hall, P.; Soskice, D. 2001; Whitley, 1999), and it is likely that, common pressures notwithstanding, the uptake of such services is likely to remain even, both within and between types of national economy. Hall and Soskice (2001) argued that the most developed sets of mutually supportive practice will be encountered in the mature economies in contrast to the Mediterranean and (Eastern and Central) European Emerging Market Economies (Hancke et al., 2007). Indeed, as Poór (2002) notes, it was only with the relaxing of Soviet control in Eastern Europe in the 1980s, that professional management consultants emerged in the latter. More recent work has pointed to the convergence of a number of Eastern and Central European economies with more mature ones, most notably Estonia, Slovenia, and Slovakia (Lane 2007). However, as the range of external HR services offered growth, the development paths of some countries also show common features

including time cycles and culture and institution related specifics of the regions in question (Christensen et al, 2013). If we take a longer-term perspective, it becomes clear that the evolution of different fields of the consulting industry and of its pre-eminent companies are closely linked to the development of management practice and ideology (Kipping, 2002).

Context to research

The development of the consultancy business in Eastern Europe was greatly affected by the facts that, after WW2, the management principles which were adopted were those practiced in the Soviet Union, and so the independent incidence of a management and organization science including general and HR consultancy was considered absolutely unnecessary. Professional management and HR consultancy performed by a third-party organization for different clients only became fashionable again in Eastern Europe in the mid-1980s, and this has meant that the last twenty years have seen faster development here than in the developed countries (Poór, 2010).

The one-party political and power system in CEE countries collapsed at the end of the 1980s and these countries are now well on their way in the move from dictatorship to democracy. The dizzying speed of the capitalist renaissance in the past 20 years has tied a number of countries – ten new EU members (the Czech Republic, three Baltic States, Hungary, Poland, Slovakia, Slovenia, Romania and Bulgaria) – more closely to the West than at any time in previous decades. Such a rapid transition from centralized state control and national economic planning to free-market, globally competitive capitalism is unprecedented in history. This difficult political and economic process has, however, had its consequences, as shown below (Roaf, et al., 2014).

First, the political and administrative map of the region has undergone drastic change. Before the sweeping political transformation, eight countries existed in this region; now, besides the Eurasian region of the former Soviet Union, there are 16 different sovereign states with a combined population of more than 200 million. Before these changes, from a cultural perspective, the whole region had been treated in a very similar manner by the Western world, all being considered to be “behind the Iron Curtain”. These nations all belonged to the socialist bloc. We have to recognize that, behind the new borders, there is an environment which is - historically and culturally - highly diverse (Berend, 1996). Recognizing the complexity of this increasing regional diversity (both perceived and real) is critical to understanding the different management practices and their logical consequences on management consulting.

The second major consequence of the transition has been privatization. The private sector has become dominant in GDP terms in the EE countries, with the highest level of privatization appearing in the Czech Republic, Poland and Hungary. An important characteristic of Central and Eastern European privatization is that, in addition to internal forces (management and/or employee buy-out) (Peng, 2000),

foreign capital played a key role in the process, with some Western politicians refusing to introduce a new Marshall Plan. Foreign Direct Investment (FDI) in CEE countries gradually increased from the early 1990s when these countries abandoned their socialist systems and introduced market-oriented reforms (UNCTAD, 2011, 2012). According to data gathered by Lewis (2005), some US\$260bn of FDI arrived in the CEE region over the last 15 years, the expectation for CEE countries being that investment by multinational companies (MNCs) would fill the gap.

The third consequence was that the transition was overshadowed by high inflation and a drastic decrease in output performance during the 1990s, with more and more countries in the region trying to halt the trend. Today most of these economies have started to grow. However, despite this economic growth and lower rates of inflation in many EE countries, a wide range of differences in GDP and GDP per capita remains between the old and the new EU members.

Research method

The question is often raised in human resource management - especially in multinational companies or during the application of a rule of the EU - is whether the most effective method or rule would be a universal choice or a country-specific solution. For a long time, the universal logic of Americans was the standard. The followers of this way of thinking thought that HR solutions developed and applied in the United States could be used anywhere in the world (Beer et al., 1984; Fombrun et al., 1984). In this context, researchers have conducted a number of more complex comparisons on the use of US HRM models in different cultures and in exploring the causes of similarities and differences (Budhwar, P.S.; Sparrow, P.R. 2002).

The Cranet network, which has been operating for more than thirty years now, is one of the few international research organizations whose recurring surveys offer not only spatial but also time-based comparisons, i.e. longitudinal analyzes (Lazarova et al., 2008). Other similar research projects include CEO (Lawler, E.E.; Boudreau, W. J. 2018) and Saratoga (Fitz-enz, 1995, 2000) - Today, this network involves almost every country in Europe (including Hungary), so that the opportunities of exploring Western European HR practices in the early decades and identifying the different features of the American model (Brewster, et al., 1994) are expanding.

Our study is based on three recent rounds of the global Cranet HRM survey (2004-05, 2008-10 and 2015-16) which provide the background to our empirical analysis. We highlighted basic fields of the whole Cranet survey and tried to give an in-depth analysis of the selected fields. We analyzed business areas where controlled research by randomization is hardly possible (Ghauri-Gronhaug, 2010), and, in line with more orthodox management science principles, control

variables are used based on repeated trials at the time (Reeb et al, 2012). Cranet is the world's largest research network of HRM, and it brings together researchers from 41 countries (Lazarova et al., 2008). The Cranet research methodology (Brewster et al., 1991; Brewster et al., 1994; Mayrhofer, 1998) has remained remarkably stable since the early surveys. Some revisions have been made to the questionnaire over its various iterations, but the research dynamic is characterized by expansion from Western Europe into a number of nations and regions in the rest of Europe and around the world. The standardized Cranet questionnaire, which serves as the basis for our current research, contains seven parts and poses almost 60 questions to explore HRM practices. Surveys offer both cross-sectional (country and region) and longitudinal analysis.

The Faculty of Economics at the University of Pécs and the Faculty of Economics and Social Sciences at Szent István University from Hungary, as members of the international research network of Cranet, have conducted three survey rounds of human resource management in Hungary, which is part of the international comparative studies since 2004.

Country clusters

The basis for cluster generation was the analysis of the organizational and cultural traits of the respondents (Hofstede, 1980). The country cluster is shown in Table 1. As a result of this, we identified six regions. In this study, the West European (WE) category consists of Austria, Belgium, France, Germany, and Switzerland; the total number of organizations surveyed in 2004/05 was 1,271, and in 2008/10 it was 1,119 - 23% of the total sample in both periods, whilst it was 991 16% in 2014/15. The North European (NE) cluster comprises Iceland, Norway, Sweden, Denmark, and Finland, with 1,609 (29%); 1,016 (21%) and 738 (12%) organizations in the sample in 2004/05, 2008/10 and 2014/15, respectively. The EE category included 826 (2004/05), 978 (2008/10) and 979 (2014/15) organizations in six former socialist countries from Central and Eastern Europe (Bulgaria, the Czech Republic, Estonia, Hungary, Slovakia, and Slovenia). The Eastern Europe category was supplemented by a further 2 countries Latvia and Lithuania in 2014/15 because Bulgaria and the Czech Republic did not participate in the survey in 2014/15. The USA appears as an individual cluster by having 260 (5%) and 1,052 (22%) participating organizations, which became 381 (6%) in 2014/15. The United Kingdom (UK) cluster was represented by 1115 (20%) in 2004/05, 218 (4%) in 2008/10 and 182 (3%) in 2014/15 respectively. Finally, we identified a peripheral region which included Cyprus, Greece, and Israel. In the 2004/5 research period 527 organizations from those three countries filled out the questionnaire, comprising about 9% of the sample, whilst in the 2008/10 research period 478 companies from these 3 countries made up some 10% of the respondents, followed by 352 (6%) in 2014/2015 (Table 2).

Table 2. Composition of sample (2004/05; 2008/10; 2015/16)

Country Cluster/period	West European	Nort European	Eastern European	Perifery region	United Kingdom	United State of Amerika
2004/05	Austria Belgium Franc Germany Switzerland	Iceland Norway Sweden Denmark Finland	Bulgaria Czech Republic Estonia Hungary Slovakia Slovenia	Cyprus Grace Israel	UK	USA
2008/10	Austria Belgium Franc Germany Switzerland	Iceland Norway Sweden Denmark Finland	Bulgaria Czech Republic Estonia Hungary Slovakia Slovenia	Cyprus Grace Israel	UK	USA
2015/16	Austria Belgium Franc Germany Switzerland	Iceland Norway Sweden Denmark Finland	Estonia Latvia Litvania Hungary Slovakia Slovenia	Cyprus Grace Israel	UK	USA

Source: Authors' own edition

Hypotheses development

For the purpose of this study the authors decided to explore the changes in the use of HR outsourcing in relation to the effects of the economic crisis, as a macroeconomic trend, and as organizational factors of the companies included in the research. There are three possible explanations of the impact of the crisis on the relative tendency of companies to outsource and/or seek external expertise in fulfilling HR tasks. The first is that the use of external knowledge providers is a relative luxury which is easily dispensable in hard times. This would suggest that HR departments with a more strategic or knowledge-intensive function are more likely to be kept in-house in hard times, and in contexts where the global recession is most felt. Again, if a company is locked into a basic survival mode, it may be reluctant to engage in significant new initiatives (Hitt, 1995).

H1: The effects of the financial crisis have led to the decreasing use of external service providers

The second is that recession-driven cost-cutting may make for more outsourcing, rather than less, with as many functions as possible outsourced to low cost external providers. It also may be that at such times, companies need to enhance their capabilities from whatever source is possible, in order to survive and compete (Whetten, 1980). These two tendencies may be complementary (Delmotte, J.; Sels, L. 2008; Whitford, 2005).

H2: The incidence of an HRM department increases the likelihood of using external service providers

Third, it may be that the relative tendency to ask external providers to offer aspects of HRM work will be affected by the size of the company, the sector, and

whether it has an HRM department or not: Research from Lithuania suggests that medium-sized and private organizations tend to use more external providers for payroll than their smaller counterparts (Kazlauskaitė, R.; Buciuniene, T. 2010). If HRM outsourcing contributes to the effectiveness of the HRM department and frees up staff to deal with strategic challenges (Delmotte, J.; Sels, L. 2008), it is more likely to be encountered in larger organizations that have the capabilities to develop large HRM departments with strategic capabilities and greater wherewithal to secure the best expertise wherever found.

H3: Larger organizations more frequently use external service providers in the 3 sample periods

However, this hypothesis should not imply that smaller companies without an HRM department cannot perform effective HRM work (Kim and Lee, 2012)

Results

In our study we show the results of the last three surveys of external service providers in the HR field. There was no HR department in 8% (2004/05), 20% (2008/10) and 11% (2014/15) of the total sample. The data show that numerous companies have opened an HR department in the last five years.

According to the survey results (Cranet 2004, 2008 and 2016), the most common size of a HR department stands at 1-5 personnel - 50% (2004/05), 43% (2008/10) and 44% in (2015/16). In the USA (0% -6%-14%), and in Western Europe (5%-5%-5%) very few organizations operate without an HR department, and most of these are located in Eastern Europe (12%, 36%, 19%) and in countries on the periphery (19%, 30%, 19%). The results show that since 2008, in Eastern Europe the presence of

the number HR departments in firms has increase, especially in smaller firms (with HR departments from 1-5 members). Interestingly, the US shows the presence of HR departments declining slightly in firms overall,

especially in those firms with small HR departments of 1-5 members, exactly the opposite of Eastern Europe (Figure 1).

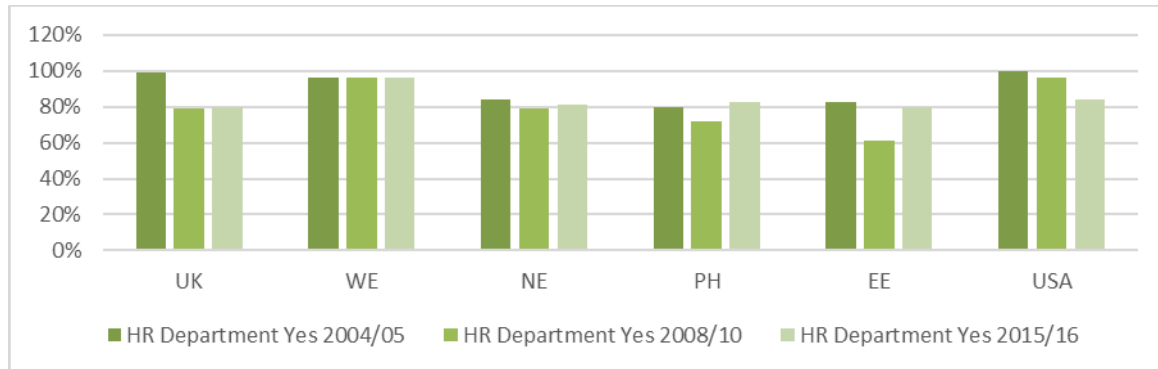


Fig. 1: Companies/organizations with active HR departments (%)

Source: Authors' own edition

Our analysis demonstrates the current situation among companies with and without HRM departments. The number of organizations with separate HRM departments significantly decreased in all clusters after the financial crisis, although there has been an increase in Eastern Europe and in the peripheral region over the last five years.

In this sample, in 2004 89%, in 2008 62% and in 2016 64% of the organizations reported that they used external service providers in the fields of training, education and development, whilst 76% (2004/05) 42% (2008/10) and 46% (2015/16) used external service providers in the field of HR information system services. In EE countries, however, the use of external service providers for any HR function is less common than in the other clusters following the economy crisis, and so training and development, with HR information system services, are the most frequently used fields for employing external services in all three periods. (Figure 2). There is a significant relationship between the clusters and the use of external service providers (according to the Chi-square test). The most significant relationship lies in the field of retirement Cramer's V (2004) = 0.379, Cramer's V (2008) = 0.334 and Cramer's V (2015) = 0.411, and in the field of benefits Cramer's V (2004) = 0.204, Cramer's V (2008) = 0.291 and Cramer's V (2015) = 0.364 (Table 3).

Table 3: The Cramer's V test

Cramer's V Test/Period	2004/05	2008/10	2015/16
Retirement	0.379	0.334	0.441
Benefits	0.204	0.291	0.364

Source: Authors' own edition

The Cranet survey examines the use of external providers to perform HRM functions in four broad areas in 2016. Firstly, there is the use of external providers to administer Pensions and Rewards, which may incorporate significant financial decision-making. With the general decline in defined benefits pensions, the actual amount which employees receive has become increasingly difficult to estimate, and the use of external providers may place such arrangements at arm's length from the company although this could have negative consequences for employee morale and retention (De Thierry et al., 2014). Secondly, it examines the use of external providers for Training and Development, as well as for managing the Reduction or Outplacement of the workforce, both areas having far-reaching implications for the interdependence of employers and employees. Again, such activities are likely to be vested with indirect or direct strategic importance (Holton and Yamkovenko, 2008). Thirdly, there is outsourcing - which encompasses technology and the use of external providers for HRM Information Systems (Sheehan, 2009). We found that companies were more likely to outsource Training and Development and HRM Information Systems than other functions. Finally, there is Recruitment and Selection - which is hugely important and where external providers use a wide range of selection practices. This may be since these areas are knowledge-intensive and require skills not readily available in many HRM departments. (Sheehan, 2009). The use of external providers of HRM services is multi-dimensional, and we will devote due attention to variations in the relative use of these dimensions.

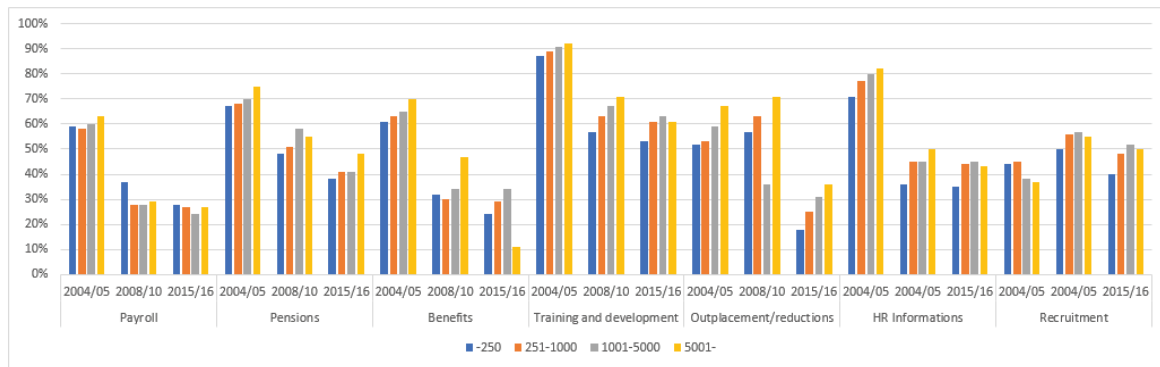


Fig. 2. Use of external providers by HR area (%)
Source: Authors' own edition

Analyzing the East European cluster, we can see a weaker trend in the use of external service providers in the three periods (Figure 2). Similar to the trends in the other clusters, organizations with more than 5,000 employees in the EE cluster used external service providers for Training and Development and for HR Information System Services before the crisis. In the EE cluster the negative effects of the crisis appeared more dramatic when compared to the total sample. Moreover, the demand for external services did not increase in the EE cluster. In 2004/05 there was no significant relationship visible between the company's size and the use of external service providers (except for HR Information Systems), but this became significant in three

areas (Payroll, Pensions, HR Information Systems). An interesting fact was that larger organizations imposed the largest cutbacks in employing external service providers. In 2015/16, we saw no more radical changes in external services than in 2008/10. Further, most companies have used external service providers in the area of Training and Development and HR Systems. We divided the organizations into four size categories (by the number of employees, as follows: 1–250; 251–1,000; 1,001–5,000; >5,000). According to the survey results, the chi-squared test showed a significant correlation between the headcount of an organization and the use of external service providers (Figure 3).

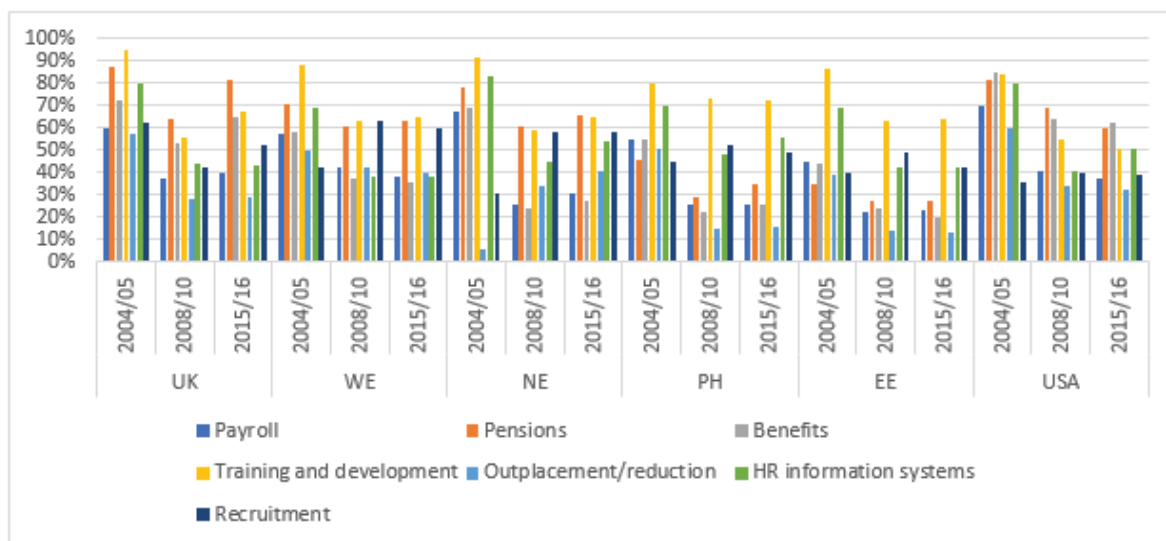


Figure 3: Use of external services in HR areas by client company size (%)
Source: Authors' own edition

The connection is very weak on the basis of Cramer's V in 2005/04 and 2008/10, but the connection is of medium size strength in 2015/16. Figure 3 shows the ratio of use of external service providers in terms of the size of the hiring organization. Analyzing the 3 sample periods, we can see that larger organizations more frequently demand external services than do smaller entities, although, after the crisis, the number of external service contracts declined in all size categories. However,

the area of Benefits showed the greatest decrease in larger organizations in the last five years. In most cases there is a significant, but relatively weak relationship between the elements of the matrix.

This may reflect the extent to which larger organizations are more likely to take HR issues seriously, and the smallest concentrate on the basic administrative elements of the function, paring costs down to such an

extent that the use of external providers would provide few if any savings.

With one exception, we also found a significant correlation between the HRM department and the use of external service providers. The Cramer's V values show a weak relationship, but generally the companies with HRM departments are more likely to use external service providers although the relationship is of medium strength in 2015/16.)

Conclusions

Our study clearly shows that the economic crisis has had a major impact on companies' HR activities and on the use of external HR services providers. The most significant change came after the economic crisis in each country group reduced the number of companies with HR departments, but Eastern Europe and the peripheral countries experienced the largest cut-back. In this respect pre-crisis East European companies were not significantly different from each other and even ahead of the North European and peripheral countries. However, more than one-third of the respondents have no HR department and these have become laggards in the clusters studied. Similar trends can be seen in the peripheral countries and the United Kingdom. The impact of the crisis was strongly reflected in every cluster and in most HR fields. The consensus is that external providers

were replaced by internal HRM or external providers were not used.

The number of companies employing external HR services providers declined by 50% even 66%. In some cases even greater cutback has occurred. But in the last period, the employing of external HR service provider's number has increased. However, the companies with HR departments use external service more readily than the others during all these three periods. In Eastern Europe compared to the other groups the use of external suppliers is less typical. But three fields of external services can be expected (HR information systems, training and development, and recruitment), during these three periods, especially at companies with an HR department – they showed significantly higher use of external providers. Most typical of large companies are the hiring of external professionals in all three periods. Although each respondent category reduced the use of external provider in 2008/10 and 2015/16, for most service providers their major setbacks occurred in respect of smaller companies. East European respondents rarely used external service providers but the largest companies employing more than 5 000 people were the exception. In the last five years numerous UK companies have used external service providers in respect of Pensions. By contrast, the growth was not observed in this area in the other clusters.

Table 4. The results of the hypothesis analysis

Hypotheses	Explanations	Validation		
		True	Partially true	Not true
H1: The effects of the financial crisis have led to the decreasing use of external service providers	Expectations for recruitment in all clusters. Most HR fields have seen a dramatic fall in the number of organizations in the 2008/10 period. Now it seems that a number of companies use external providers expect East European cluster.	X		
H2: The incidence of an HRM department increases the likelihood of using external service providers.	In cases where the organization has an HR department the use of external services providers remained almost at the same level as before the crises but in last two period (2008/10 and 2015/16) it seems that number of companies do not use external services providers.		X	
H3: Larger organizations more frequently use external service providers in three samples periods	The larger organizations demand external services more often than smaller ones during these three period.	X		

Source: Authors' own edition

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József POÓR, Professor of Management at J. Selye University (Slovakia) and Szent István University (Hungary), Field of scientific research: management consultancy, international management and human resource management, Address: H-2100 Gödöllő, Péter Károly u. 1, Hungary, Phone: +36 20 464 9168; e-mail: poorj@t-online.hu

Ildikó CSAPÓ - PhD student, Szent István University, Doctoral School of Management and Business Administration, Field of scientific research: management consultancy, human resource management, Address: H-2100 Gödöllő, Péter Károly u. 1, Hungary, Phone. +36 30 525 2358 E-mail csapo.ildiko40@gmail.com

Ildikó Éva KOVÁCS, Assistant Professor, Szent István University (Hungary), Field of scientific research: human resource management, knowledge management; Address: H-2100 Gödöllő, Péter Károly u. 1, Hungary, Phone: +36 30 941 2980, e-mail: Kovacs.Ildiko.Eva@gtk.szie.hu

Zsuzsa KAROLINY, Associate Professor, University of Pécs (Hungary),), Field of scientific research: human resource management, Phone: +36 20 403 5066, e-mail :karoliny@ktk.pte.hu

Khaloud ALSULAITI, PhD student, Szent István University (Hungary), Field of scientific research: Training and development in emerging environment. Address: H-2100 Gödöllő, Páter Károly u. 1, Hungary e-mail: khaloudalsulaiti@gmail.com.

Anton Florijan Barisic, European Excellence Assessor, Chronos, Croatia, Field of scientific research: Management consulting, human resource management, Phone: +385 91 466 7059, e-mail: afbarisic@chronos.hr

Eric J. SANDERS, Adjunct Instructor, Loyola University Chicago, Adjunct Instructor, Marquette University, Field of scientific research: management consultancy, e-mail: eric.sanders@ODeconomist.com